PERAC AUDIT REPORT

Dukes County Contributory Retirement System

JAN. 1, 2011 - DEC. 31, 2014

PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

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March 1, 2017

The Public Employee Retirement Administration Commission has completed an examination of the Dukes County Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2011 to December 31, 2014. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission, in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners Scott Henderson and Mike Pasternak who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton

Joseph E. Connarton
Executive Director

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

1. Cash/Bank Reconciliation:

The bank reconciliation for the period ending December 31, 2014 had an unexplained variance between the Treasurer's balance and the Retirement Board general ledger balance of $23,216.56. By the July 2015 reconciliation this variance had increased to $36,062.47.

The Treasurer's reconciliation includes a number of items that go back for several years. These outstanding items represented both regular benefit checks and miscellaneous items such as duplicate tax withholdings payable to Commonwealth of MA and also Child Support payments which were deducted by the Commonwealth in error.

Recommendation: The unexplained variance must be investigated. Once it is determined what the cash balance should be, a correcting entry can be made.

Any un-cashed item older than six months should be researched so that proper voiding and recording of these items can be completed. The Retirement System should notify all retirees relative to the advantages of direct deposit as an alternative to monthly checks.

Board Response:

The Administrator and the Chairman will work together to reconcile the cash and find the variance. Some of the issue was a miscommunication that had been corrected in the general ledger but not communicated to the Treasurer. Corrective entries will be made to bring the cash into balance. Also, in an effort to streamline the monthly reconciliation process, the retirement system has initiated direct deposit requirements for all new retirees. The 30 remaining retirees receiving a check will not be mandated to switch at this time.

2. Monthly Financial Reporting:

The financial information that the Board members see is the custodial report, pooled fund manager statements, and an occasional trial balance. They do not see the rest of the monthly accounting or bank reconciliations.

Recommendation: Each month the Board administrator should prepare a packet which consists of the following items:

- Cash reconciliation including bank statements
- Trial Balance
- Cash Receipts
- Cash Disbursements
- Adjusting Journal Entries
- Budget to Actual Expense Comparison (if not monthly, quarterly)
- Cash Flow Forecast

This process will assist the Retirement Board in the exercise of their fiduciary responsibilities. The distribution of additional financial data will provide a basis for formalizing the supervision of the system by the Retirement Board. It will also help to determine that Board policy is implemented and adhered to. A notation should be made in the minutes indicating that the documents have been presented to the Retirement Board.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONTINUED)

<u>Board Response:</u>
The Board members do see quarterly reviews of all activity and cash flow. The Administrator will work on providing the Board with other monthly reconciliations electronically.

<u>3. Membership:</u>
The auditor sampled payrolls from 15 of the 16 units. Errors in determining regular compensation were found in 4 units. These errors include:

A member scheduled to work 40 hours per week had deductions taken on straight time pay over 40 hours. Since time over someone's scheduled hours is not part of base salary, contributions should not be withheld.

Police and fire holiday pay was not subject to retirement deductions in two units. Pursuant to 840 CMR 15.03 3(f), " 'wages' shall not include … amounts paid as premiums for working holidays, except in the case of police officers, firefighters … money paid for holidays shall be regarded as regular compensation".

One unit was not withholding retirement deductions on 111F pay. Pursuant to c. 41 §111F this pay is considered regular compensation.

Multiple units were taking retirement deductions out of payments for inspections when the amount was directly related to the number of inspections performed. Since the number of inspections is not known in advance, this pay does not meet the "predetermined" requirement of 840 CMR 15.03 3(b).

One unit was either withholding contributions from police shift differential or not, depending on how the member was paid. If the shift differential was part of a second check with overtime and other non-pensionable pay, then contributions were not withheld. If the shift differential was paid with the base pay in one check, then contributions were withheld. Although night shift assignments in this unit change quarterly, the shift differential payments are part of the employee's base salary and should have contributions withheld.

Recommendation: The respective payroll departments should be contacted and instructed to make the necessary changes as soon as possible. Board staff should review a future payroll to confirm that the changes have been implemented.

<u>Board Response:</u>
The system will continue to communicate with payroll staff of member units to remind them of their responsibility to provide complete payroll reports so that system staff can identify calculation and coding issues. The Administrator will meet with current payroll staff for education and training sessions. Treasurers have been notified of errors and corrections to procedure have been made.

<u>FINAL DETERMINATION</u>:
PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,			
	2014	2013	2012	2011
Net Assets Available For Benefits:				
Cash	$2,897,626	$3,363,708	$4,465,122	$2,689,823
Short Term Investments	700,000	700,000	700,000	700,000
Fixed Income Securities	12,841,418	850	850	850
Equities	24,228,249	20,825,445	7,839,150	7,210,780
Pooled Domestic Equity Funds	13,107,687	11,580,318	16,185,300	14,109,713
Pooled International Equity Funds	3,662,836	3,805,207	3,063,651	1,393,841
Pooled Domestic Fixed Income Funds	0	12,068,298	11,772,798	11,084,029
Pooled Real Estate Funds	8,672,325	6,110,325	4,089,630	3,593,235
PRIT Core Fund	47,224,656	43,848,250	37,436,893	33,003,763
Accounts Receivable	2,148,944	1,586,905	1,159,184	1,208,219
Accounts Payable	(290,215)	(350,371)	(15,265)	(34,030)
Total	$115,193,525	$103,538,933	$86,697,313	$74,960,223
Fund Balances:				
Annuity Savings Fund	$31,257,927	$29,173,788	$27,061,150	$24,943,617
Annuity Reserve Fund	7,186,443	6,616,301	6,195,852	6,049,710
Pension Fund	740,574	442,958	770,827	319,395
Military Service Fund	13,399	13,386	3,399	3,396
Expense Fund	0	0	0	0
Pension Reserve Fund	75,995,183	67,292,501	52,666,086	43,644,105
Total	$115,193,525	$103,538,933	$86,697,313	$74,960,223

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2011)	$23,314,729	$5,541,587	$409,247	$3,389	$0	$41,300,297	$70,569,249
Receipts	3,114,568	171,774	4,157,530	7	533,254	2,332,316	10,309,449
Interfund Transfers	(1,083,785)	1,072,293	0	0	0	11,492	0
Disbursements	(401,896)	(735,943)	(4,247,382)	0	(533,254)	0	(5,918,475)
Ending Balance (2011)	24,943,617	6,049,710	319,395	3,396	0	43,644,105	74,960,223
Receipts	3,348,152	180,287	4,909,770	3	570,079	9,064,471	18,072,763
Interfund Transfers	(773,144)	815,634	0	0	0	(42,491)	0
Disbursements	(457,476)	(849,780)	(4,458,338)	0	(570,079)	0	(6,335,673)
Ending Balance (2012)	27,061,150	6,195,852	770,827	3,399	0	52,666,086	86,697,313
Receipts	3,818,776	183,817	4,821,583	9,986	711,716	14,536,292	24,082,170
Interfund Transfers	(1,205,210)	1,115,088	0	0	0	90,122	0
Disbursements	(500,927)	(878,456)	(4,829,138)	0	(711,716)	0	(6,920,237)
Ending Balance (2013)	29,173,788	6,616,301	763,272	13,386	0	67,292,501	103,859,247
Receipts	3,946,625	198,295	5,266,758	13	896,612	8,710,888	19,019,191
Interfund Transfers	(1,389,082)	1,397,288	0	0	0	(8,207)	0
Disbursements	(473,405)	(1,025,441)	(5,289,455)	0	(896,612)	0	(7,684,913)
Ending Balance (2014)	$31,257,927	$7,186,443	$740,574	$13,399	$0	$75,995,183	$115,193,525

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,			
	2014	2013	2012	2011
Annuity Savings Fund:				
Members Deductions	$3,366,693	$3,165,186	$2,967,604	$2,863,256
Transfers from Other Systems	428,672	443,971	287,315	112,656
Member Make Up Payments and Re-deposits	40,621	34,715	41,057	59,277
Member Payments from Rollovers	62,859	123,913	13,970	26,738
Investment Income Credited to Member Accounts	47,781	50,990	38,206	52,640
Sub Total	3,946,625	3,818,776	3,348,152	3,114,568
Annuity Reserve Fund:				
Investment Income Credited to the Annuity Reserve Fund	198,295	183,817	180,287	171,774
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems	175,287	197,468	205,007	167,110
Received from Commonwealth for COLA and Survivor Benefits	30,142	30,691	39,294	43,454
Pension Fund Appropriation	5,036,029	4,591,730	4,655,849	3,945,724
Settlement of Workers' Compensation Claims	20,900	0	9,000	0
Recovery of 91A Overearnings	4,400	1,694	621	1,241
Sub Total	5,266,758	4,821,583	4,909,770	4,157,530
Military Service Fund:				
Contribution Received from Municipality on Account of Military Service	0	9,983	0	0
Investment Income Credited to the Military Service Fund	13	3	3	7
Sub Total	13	9,986	3	7
Expense Fund:				
Investment Income Credited to the Expense Fund	896,612	711,716	570,079	533,254
Pension Reserve Fund:				
Pension Reserve Appropriation	715,352	717,202	1,034,686	1,152,162
Interest Not Refunded	3,050	2,894	851	214
Miscellaneous Income	0	3,609	1	3
Excess Investment Income	7,992,485	13,812,586	8,028,934	1,179,938
Sub Total	8,710,888	14,536,292	9,064,471	2,332,316
Total Receipts	$19,019,191	$24,082,170	$18,072,763	$10,309,449

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,			
	2014	2013	2012	2011
Annuity Savings Fund:				
Refunds to Members	$320,343	$385,459	$245,954	$288,953
Transfers to Other Systems	153,062	115,469	211,522	112,942
Sub Total	473,405	500,927	457,476	401,896
Annuity Reserve Fund:				
Annuities Paid	1,002,435	878,456	792,134	735,943
Option B Refunds	23,006	0	57,646	0
Sub Total	1,025,441	878,456	849,780	735,943
Pension Fund:				
Pensions Paid:				
Regular Pension Payments	3,802,241	3,390,038	3,071,499	2,852,890
Survivorship Payments	93,321	93,332	97,366	104,848
Ordinary Disability Payments	90,882	90,882	94,545	87,326
Accidental Disability Payments	707,386	674,603	638,134	560,650
Accidental Death Payments	175,488	175,488	173,058	196,111
Section 101 Benefits	9,690	9,690	9,407	15,255
3 (8) (c) Reimbursements to Other Systems	328,131	319,542	223,951	226,712
State Reimbursable COLA's Paid	82,318	75,565	150,379	203,589
Sub Total	5,289,455	4,829,138	4,458,338	4,247,382
Expense Fund:				
Board Member Stipend	15,000	15,000	15,000	15,001
Salaries	150,365	140,682	122,161	120,301
Legal Expenses	9,987	2,959	7,537	8,635
Medical Expenses	373	387	202	27
Travel Expenses	11,240	6,248	8,985	3,977
Administrative Expenses	80,555	70,381	57,105	67,428
Professional Services	0	0	0	1,200
Actuarial Services	17,250	0	10,686	1,730
Education and Training	1,800	1,630	2,140	1,080
Furniture and Equipment	6,875	0	0	2,108
Management Fees	501,717	360,844	273,560	239,522
Custodial Fees	37,878	51,372	16,737	22,243
Consultant Fees	35,000	35,000	30,000	25,000
Service Contracts	22,975	21,880	20,640	19,845
Fiduciary Insurance	5,598	5,333	5,326	5,157
Sub Total	896,612	711,716	570,079	533,254
Total Disbursements	$7,684,913	$6,920,237	$6,335,673	$5,918,475

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31, 2014	2013	2012	2011
Investment Income Received From:				
Cash	$6,409	$10,729	$11,006	$18,216
Short Term Investments	13,816	12,435	16,782	3,271
Fixed Income	361,518	449,812	13,229	0
Equities	230,349	115,675	116,047	67,275
Pooled or Mutual Funds	2,100,807	1,793,473	2,028,865	1,867,421
Total Investment Income	2,712,900	2,382,125	2,185,929	1,956,182
Plus:				
Realized Gains	3,015,177	2,455,567	2,233,629	1,289,419
Unrealized Gains	8,190,450	14,139,483	8,779,774	8,142,648
Sub Total	11,205,628	16,595,050	11,013,403	9,432,067
Less:				
Paid Accrued Interest on Fixed Income Securities	(115,672)	(128,504)	0	0
Realized Loss	(225,439)	(533,653)	(266,043)	(594,843)
Unrealized Loss	(4,442,229)	(3,555,905)	(4,115,780)	(8,855,760)
Interest Due and Accrued - Prior Year	0	0	0	(33)
Sub Total	(4,783,341)	(4,218,063)	(4,381,822)	(9,450,637)
Net Investment Income	9,135,187	14,759,113	8,817,510	1,937,613
Income Required:				
Annuity Savings Fund	47,781	50,990	38,206	52,640
Annuity Reserve Fund	198,295	183,817	180,287	171,774
Military Service Fund	13	3	3	7
Expense Fund	896,612	711,716	570,079	533,254
Total Income Required	1,142,701	946,527	788,576	757,675
Net Investment Income	9,135,187	14,759,113	8,817,510	1,937,613
Less: Total Income Required	1,142,701	946,527	788,576	757,675
Excess Income (Loss) To The Pension Reserve Fund	$7,992,485	$13,812,586	$8,028,934	$1,179,938

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2014	
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	$2,897,626	2.6%
Short Term Investments	700,000	0.6%
Fixed Income Securities (at book value)	12,841,418	11.3%
Equities	24,228,249	21.4%
Pooled Domestic Equity Funds	13,107,687	11.6%
Pooled International Equity Funds	3,662,836	3.2%
Pooled Real Estate Funds	8,672,325	7.7%
PRIT Core Fund	47,224,656	41.7%
Grand Total	$113,334,797	100.0%

For the year ending December 31, 2014, the rate of return for the investments of the Dukes County Retirement System was 8.97%. For the five-year period ending December 31, 2014, the rate of return for the investments of the Dukes County Retirement System averaged 10.87%. For the 30-year period ending December 31, 2014, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Dukes County Retirement System was 7.87%.

The composite rate of return for all retirement systems for the year ending December 31, 2014 was 7.81%. For the five-year period ending December 31, 2014, the composite rate of return for the investments of all retirement systems averaged 10.08%. For the 30-year period ending December 31, 2014, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.43%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Dukes County Retirement System has not submitted any supplementary investment regulations to the Public Employee Retirement Administration Commission for approval.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Dukes County Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 104 contributory retirement systems for public employees in Massachusetts. Each system is governed by a retirement board and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the State Police. The other 3 classes are as follows:

Group 1:

General employees, including clerical, administrative, technical and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of $30,000.

In addition, members of Group 1 who join the system on or after April 2, 2012 will have their withholding rate reduced to 6% after achieving 30 years of creditable service.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A person who became a member before April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2.

A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- attainment of age 60 with 10 years of service if classified in Group 1, or
- attainment of age 55 with 10 years of service if classified in Group 2, or
- attainment of age 55 if classified in Group 4.

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year (or five year as discussed below) average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of $15 per year for each year of creditable service, up to a maximum of $300.

For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a)(17). In addition, regular compensation will be limited to prohibit "spiking" of a member's salary to increase the retirement benefit.

- For persons who became members prior to April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last 3 years (whether or not consecutive) preceding retirement.

- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.

- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .15% reduction is applied for each year of age under the maximum age for the member's group.

- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .125% reduction is applied for each year of age under the maximum age for the member's group.

DEFERRED VESTED BENEFIT

A participant who has attained the requisite years of creditable service can elect to defer his or her retirement until a later date. Certain public safety employees cannot defer beyond age 65. All participants must begin to receive a retirement allowance or withdraw their accumulated deductions no later than April 15 of the calendar year following the year they reach age 70½.

NOTES TO FINANCIAL STATEMENTS (Continued)

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s. 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching "maximum age". "Maximum age" applies only to those employees classified in Group 4 who are subject to mandatory retirement.

Retirement Allowance: For persons who became members prior to April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

For persons in Group 1 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 60. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 60, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

For persons in Group 2 and Group 4 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of $821.52 per year (or $312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. 1 receive an additional benefit of $15 per year for each year of creditable service, up to a maximum of $300.

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of $821.52 per year, per child (or $312.00 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries while in the performance of his duties that results in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death. In addition, an eligible family member may receive a one time payment of $150,000.00 from the State Retirement Board. This lump sum payment is also available to the family of a public prosecutor in certain, limited circumstances.

NOTES TO FINANCIAL STATEMENTS (Continued)

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of $6,000. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is $9,000. For Systems that accept the provisions of Section 63 of Chapter 139 of the Acts of 2012, the amount of this benefit is $12,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 55 benefit rate is used. For a member classified in Group 1 who became a member on or after April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 60 benefit rate is used. If the member died after age 60, the actual age is used. For a member classified in Group 2 or Group 4, whose death occurred prior to the member's minimum superannuation retirement age, the benefit shall be calculated using an age 55 age factor. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is $3,000 unless the retirement system has accepted the local option increasing this minimum annual allowance to $6,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of $1,440 per year for the first child and $1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase (COLA) for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. Only a certain portion of a retiree's total allowance is subject to a COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

Under the provisions of Chapter 32, Section 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of $1,000. For many years the COLA base was calculated based upon the first $12,000 of a retiree's allowance. Now the maximum base upon which the COLA is calculated varies from system to system. Each increase in the base must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who is has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system. In certain circumstances, if a member received regular compensation concurrently from two or more systems on or after January 1, 2010, and was not vested in both systems as of January 1, 2010, such a pro-ration may not be undertaken. This is because such a person may receive a separate retirement allowance from each system.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

Cash accounts are considered to be funds on deposit with banks and are available upon demand.

Short Term Investments are highly liquid investments that will mature within twelve months from the date of acquisition.

Investments are reported at their fair value. Securities traded on recognized exchanges are valued at the most recent sales price at year end. If no sale was reported, the mean of the bid and asked price is used when available, or the most recent bid price. Mutual, commingled and pooled funds are valued based on the net asset or unit value at year end. Real estate and alternative investments are valued based on estimates provided by the managers of those respective investments. Purchases and sales of securities are reflected on the date the trade is initiated. Realized gain or loss is largely based on the difference between the cost or the value at the prior year end and the funds realized upon liquidation. Dividend income is generally recorded when received. Interest income is recorded as earned on an accrual basis. Income from alternative investments is recorded as reported by the managing partner. Appreciation or depreciation in the value of investments consists of the unrealized gains and losses reported as the difference between the previous period and the current value.

The system makes estimates and assumptions that affect the reported values of assets and liabilities and the reported amounts added and deducted during the reporting periods. The fair value of real estate and alternative investment holdings are generally estimated in the absence of reliable exchange values. The actual funds realized upon liquidation may differ from these estimates.

The provisions of Massachusetts General Laws Chapter 32, § 23(2) generally govern the investment practices of the system. The Board retains an investment consultant to closely monitor the implementation and performance of their investment strategy and advise them of the progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

Operating expenses include the ordinary and necessary cost of investment and professional services and the other miscellaneous administrative expenses of the system.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Dukes County Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

Membership:
July 19, 2011
A minimum annual salary of $5,000 is required for membership in the Dukes County Contributory Retirement System. This regulation is in collaboration with Chapter 21 of the Acts of 2009 under MGL c. 32, § 4(1)(o).

June 27, 2002
Motor Vehicles as Regular Compensation
(This rule has been superseded by subsequent court decisions and is not applicable)

April 26, 1993
Part-time, provisional, temporary, seasonal or intermittent employees who are regularly employed for an average of at least 20 hours per week, minimum of 520 hours and have completed 6 months of service must become members of the system.

(Revises rule #1 previously approved December 26, 1984)
Cafeteria workers or teacher aides who work a five day week for 5 hours or more per day be shall be considered full time employees and must become members of the system.

Creditable Service:
March 25, 2008
A full-time employee will receive one (1) full year creditable service for each year employed. A part-time employee whose position has always been part-time is granted full creditable service. A part-time employee who becomes full-time has the part-time service pro-rated.

December 26, 1984
Part-time, part-time permanent, temporary, provisional, temporary provisional, seasonal or intermittent employee receiving weekly or monthly salaries or wages for prescribed periods of employment, be given creditable service based on actual service rendered, provided that in the case of any such employee whose work is found by the board to be seasonal in nature, the board shall credit as the equivalent of 1 year of service actual full time service of not less than 7 months during any one calendar year. A day is to be based on a 7½-hour period of employment in a 37½-hour week.

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the County Treasurer who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member:	Noreen Flanders, Chair		
Appointed Member:	Roger Wey	Term Expires:	12/31/17
Elected Member:	Jo Ann Murphy	Term Expires:	12/31/16
Elected Member:	David B. Rossi	Term Expires:	12/31/16
Appointed Member:	Melanie Becker	Term Expires:	12/31/17

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board. The PERAC Actuary performs verification prior to payment, unless the system has obtained a waiver for superannuation calculations allowing them to bypass this requirement. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

Retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts. Fidelity insurance is the only required policy coverage under Ch. 32 §21 and §23 as well as 840 CMR 17.01. The policy is designed to cover specific intentional acts such as theft, fraud or embezzlement and also specify who commits such acts, most commonly employees of the system. This coverage reimburses the system for the losses it suffers as a result of its employees' actions. It does not insure the employees for their illegal acts. Statutorily required coverage is provided by the current fidelity insurance policy to a limit of $1,000,000 with a $10,000 deductible issued through Travelers Casualty and Surety Company. The system also has Fiduciary coverage to a limit of $50,000,000 under a blanket policy issued through the Massachusetts Association of Contributory Retirement Systems.

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by KMS Actuaries as of January 1, 2014.

The actuarial liability for active members was	$83,234,388
The actuarial liability for inactive was	1,325,950
The actuarial liability for retired members was	57,008,078
The total actuarial liability was	$141,568,416
System assets as of that date were (actuarial value)	97,171,632
The unfunded actuarial liability was	$44,396,784
The ratio of system's assets to total actuarial liability was	68.6%
As of that date the total covered employee payroll was	$34,859,969

The normal cost for employees on that date was:	9.5% of payroll
The normal cost for the employer was:	4.8% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return:	7.75% per annum
Rate of Salary Increase:	Varies by group & service

Schedule of Funding Progress as of January 1, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2014	$97,171,632	$141,568,416	$44,396,784	68.6%	$34,859,969	127.4%
1/1/2011	$73,989,143	$110,358,557	$36,369,414	67.0%	$29,118,456	124.9%
1/1/2009	$60,628,878	$97,882,251	$37,253,373	61.9%	$30,407,294	122.5%
1/1/2007	$53,493,298	$82,756,819	$29,263,521	64.6%	$26,285,973	111.3%
1/1/2005	$43,587,979	$68,303,109	$24,715,130	63.8%	$22,710,276	108.8%
1/1/2003	$36,978,826	$63,042,045	$26,063,219	58.7%	$20,191,180	129.1%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Retirement in Past Years										
Superannuation	8	13	10	11	13	13	17	15	17	14
Ordinary Disability	1	0	0	1	1	0	0	0	0	0
Accidental Disability	1	2	1	0	0	0	1	0	0	0
Total Retirements	10	15	11	12	14	13	18	15	17	14
Total Retirees, Beneficiaries and Survivors	168	223	225	233	215	233	239	246	260	270
Total Active Members	986	1,009	1,033	1,015	713	612	616	651	641	663
Pension Payments										
Superannuation	$2,079,344	$2,284,472	$2,295,808	$2,399,678	$2,518,527	$2,740,220	$2,852,890	$3,071,499	$3,390,038	$3,802,241
Survivor/Beneficiary Payments	84,395	77,556	87,087	79,482	92,053	90,234	104,848	97,366	93,332	93,321
Ordinary Disability	68,942	92,352	93,933	82,699	82,020	85,678	87,326	94,545	90,882	90,882
Accidental Disability	372,060	360,685	381,587	483,795	500,080	540,675	560,650	638,134	674,603	707,386
Other	305,651	361,827	365,893	364,912	389,154	404,495	641,667	556,795	580,283	595,627
Total Payments for Year	$2,910,392	$3,176,892	$3,224,308	$3,410,566	$3,581,834	$3,861,302	$4,247,382	$4,458,338	$4,829,138	$5,289,455

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